

**DEPARTMENT OF TRANSPORTATION****AUDITS AND INVESTIGATIONS**

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January 25, 2008

Ms. Barbara Goodwin  
Executive Director  
Council of Fresno County Governments  
2035 Tulare Street, Suite 201  
Fresno, California 93721

Re: Council of Fresno County Governments  
Audit of Indirect Cost Allocation Plans for Fiscal Year 2008  
File No: P1190-0640

Dear Ms. Goodwin:

We have audited the Council of Fresno County Governments (COFCG) Indirect Cost Allocation Plan (ICAP) for the fiscal year ended June 30, 2008 to determine whether the ICAP is presented in accordance with Office of Management and Budget (OMB) Circular A-87 and the Department of Transportation's (Department) Local Programs Procedures (LPP) 04-10. The COFCG management is responsible for the fair presentation of the ICAP. The COFCG proposed an indirect cost rate of 54.89% of total direct salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the COFCG. Therefore, we did not audit and are not expressing an opinion on the COFCG's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICAP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed. An audit also includes assessing the accounting principles used and significant estimates made by the COFCG, as well as evaluating the overall presentation.

The accompanying ICAP is prepared on a basis of accounting practices prescribed in the OMB Circular A-87 and the Department's LPP 04-10, and is not intended to present the results of operations of the COFCG in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICAP, a limited review of COFCG's Overall Work Program (OWP) for fiscal year ending 2007/08, a comparison of the ICAP to the fiscal year 2008 COFCG Board approved budget as well as to prior year ICAP, and reliance placed on the single audit report for the fiscal year ended June 30, 2006 and prior audit field work performed by Department staff on December 19, 2006. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

## **AUDIT RESULTS**

Based on audit work performed, the COFCG ICAP for the fiscal year ended June 30, 2008 is presented in accordance with OMB Circular A-87 and LPP 04-10. The approved indirect cost rate is 54.89% of total direct salaries and wages, plus fringe benefits. The approval is based on the understanding that a carry-forward provision applies and no adjustment will be made to previously approved rates.

### **Audit Findings**

#### **Finding 1**

The COFCG did not exclude from the FY 2008 pool of indirect costs, \$9,478 of estimated salary and expenses associated with the Executive Director performing unallowed activities such as lobbying. In addition, the COFCG Executive Director does not track her time in order to determine the amount of the salary and expenses directly attributable to managing and operating Federal programs. The OMB A-87 Attachment B, item 24, provides principles to be applied in establishing the allowability or unallowability of certain items of cost and states specifically that, the cost of certain influencing activities associated with obtaining grants, contracts, cooperative agreements, or loans is an unallowable cost. Also, item 19 5b, General government expenses, states, in part, that for federally recognized Council of Governments, the portion of salaries and expenses directly attributable to managing and operating Federal programs by the chief executive and his staff is allowable. Because the \$9,478 did not materially affect the FY 2008 proposed indirect cost rate, we did not request the COFCG to remove these costs from the proposed indirect costs.

### **Recommendations**

We recommend that, in the future, the COFCG should not include costs associated with unallowed activities, regardless of how they are paid, in the pool of indirect costs as these

may have an affect on the proposed rate. In addition, the COFCG should ensure that the Executive Director tracks her time to identify the portion of salaries and expenses directly attributable to managing and operating Federal programs.

**Auditee's Reponse**

The above finding was discussed with Les Beshears, COFCG Finance Director, on January 18, 2008. The COFCG did not concur with our exception and stated that the unallowed costs are already accounted for in the 37.39% which is the proportion of State and Local revenues and that these expenses are paid for with local funds. The COFCG also stated that during the next fiscal year, the Executive Director will be charging her time entirely as a direct cost.

**Auditor's Analysis**

Although the COFCG stated that next fiscal year they will be charging the Executive Director's time directly, the COFCG should ensure that their time charging policies and procedures comply with OMB A-87, Attachment A, regarding the allowability, allocability, and reasonableness of costs and the classification of costs as direct and indirect. Failure to comply with OMB A-87 could result in the disallowance of costs.

This report is intended solely for the information of the COFCG, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). However, this report is a matter of public record and its distribution is not limited.

Please retain the approved Indirect Cost Allocation Plans for your files. Copies were sent to the Department's District 6, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Elena Guerrero at (916) 323-7954 or Amada Maenpaa, Audit Supervisor, at (916) 323-7868.

  
MARYANN CAMPBELL-SMITH  
Chief External Audits

**Attachments**

c: Brenda Bryant, FHWA  
Gary Buckhammer, HQ Accounting  
Jim Perrault, District 6  
Ken Okereke, District 6  
Andrew Knapp, HQ Panning  
P1190-0640

**Council of Fresno County Governments  
Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the *Council of Fresno County Governments* and approved by Caltrans.

**SECTION I: Rates**

<b>Rate Type</b>	<b>Effective Period</b>	<b>Rate*</b>	<b>Applicable To</b>
Fixed with carry forward	7/1/07 to 6/30/08	54.89%	All Programs

\*Base: Total Direct Salaries and Wages plus fringe benefits

**SECTION II: General Provisions**

**A. Limitations:**

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) The estimated costs used in the calculation of the approved rate are from the grantee's approved budget in effect at the time of approval of this plan.

**B. Accounting Changes:**

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs which affect the amount of reimbursement resulting from the use of this Agreement require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

**C. Fixed Rate with Carry Forward:**

The fixed rate used in this Agreement is based on an estimate of the costs for the period covered by the rate. When the actual costs for this period are determine—either by the grantee's Single Audit or if a Single Audit is not required, then by the grantee's audited financial statements—any

differences between the application of the fixed rate and actual costs will result in an over or under recovery of costs. The over or under recovery will be carried forward, as an adjustment to the calculation of the indirect cost rate, to the second fiscal year subsequent to the fiscal year covered by this plan.

**D. Audit Adjustments:**

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

**E. Use by Other Federal Agencies:**

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by Caltrans in State-only funded projects.

**F. Other:**

If any Federal contract, grant, or other agreement is reimbursing indirect costs by a means other than the approved rate(s) in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rate(s) to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

**G. Rate Calculation**

FY 2007/08 Budgeted Indirect Costs	\$ 756,873
Carry Forward from FY 2005/06	<u>9,487</u>
Estimated FY 2007/08 Indirect Costs	\$766,360
FY 2007/08 Budgeted Direct Salaries and Wages plus fringe Benefits	\$1,396,195
FY 2007/08 Indirect Cost Rate	54.89%

## CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost rate proposal submitted herewith and to the best of my knowledge and belief:

(1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year **2007/08** (July 1, **2007** to June 30, **2008**) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and OMB Circular A-87, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.

(2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the fixed rate.

I declare that the foregoing is true and correct.

Governmental Unit: Council of Fresno County Governments

Signature: Barbara Goodwin      Signature: Les Beshears

Reviewed, Approved and Submitted by:

Prepared by:

Name of Official: Barbara Goodwin

Name of Official: Les Beshears

Title: Executive Director

Title: Finance Director

Date of Execution: 03/23/07

Phone: 559 233-4148

## INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Maura F. Twomey  
Signature

Reviewed and Approved by:

Maura F. Twomey MaryAnn Campbell Smith

Title: Chief of External Audits

Date: 4/25/08

Phone Number: (916) 323-7105

Elena Guerrero  
Signature

Reviewed and Approved by:

Zilan Chen Elena Guerrero

Title: Auditor

Date: 1/25/08

Phone Number: (916) 323-7915

Attachment 2

Council of Fresno County Governments  
Cost Carry Forward Provision

Fiscal Year	2004/05	2005/06	2006/07	2007/08
Approved Rate	55.36%	68.03%	67.78%	Approved Rate 54.89%
Indirect Calculation				
Prior year Carry Forward	4,903	50,657	27,173	Prior year Carry Forward 9,487
Indirect Costs Per Single Audit	548,524	633,826		Estimated Indirect Costs 756,873
Cal COG Adj.	(7,251)			
Total Indirect Costs	546,176	684,483		Total Indirect Costs 766,360
Recovered Costs				
(Direct Salaries + Benefits)				Estimated Direct Salaries 1,396,195
+ Approved Rate)	519,003	674,996		+ Benefits
Future Year Carry Forward	27,173	9,487		
Direct Salaries + Benefits	937,505	992,204		
(per Single Audit)				

## Attachment 1

Council of Fresno County Governments  
2007/08 Budget

	Direct Costs	Indirect Costs	Other Program Costs	Total Budget
Salaries	1,030,833	263,897	395,883	1,690,613
Fringe Benefits	365,362	93,324	160,771	619,457
Total	1,396,195	357,221 *	556,654	2,310,070
Indirect Costs				
Telephone		9,000		9,000
Membership/Dues		5,000		5,000
Insurance		20,000		20,000
Postage		19,000		19,000
Printing Supplies		23,664		23,664
Office Supplies		24,000		24,000
Publ. & Subscript.		3,500		3,500
Advertising & Legal Notice		12,000		12,000
Computer Supplies		12,500		12,500
Office Lease		193,003		193,003
Bldg. Operating Expense		9,300		9,300
Copier Lease		23,600		23,600
Repair & Maint.		1,500		1,500
Travel Expenses		26,000		26,000
Audit		10,500		10,500
Total Indirect		392,567 *	0	392,567
Other Direct Costs			4,191,948	4,191,948
Agency Pass Through			479,700	479,700
Total Budget	1,396,195	749,788	5,228,302	7,374,285
Depreciation		7,085		
Total Indirect Costs		756,873		

\* Indirect Support Staff time spent on state and local programs  
have been removed from Indirect Costs and charged to Other Program Costs

\* Temporary Services, CalCOG dues, & Travel in excess of State Policy  
have been removed from Indirect Costs and charged to Other Direct Costs